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ABSTRACT

In the context of the growing coordination of labour market policies (LMP) implementation within the European Employment Strategy (EES), the Eurostat offers a harmonised database that intends to be a valuable instrument for international comparisons in the field. However, because its tight scope fails to include some important LMP measures, this database has been playing a small role on studies related with the EES as well on those broadly focusing on labour market and employment policies.

This paper intends to address, by using meaningful LMP measures - tax credits in the UK, the *prime pour l'emploi* and general reductions of employers' social contributions in France -, the importance of having a more comprehensive database, while maintaining its current structure. For that we discuss the aims and the level of targeting defined by the Eurostat and we include, under this framework, an assessment of these measures to illustrate the limits of the database.

We conclude that these policies - apparently fitting the broad objectives of the EES - are explicitly targeted to the labour market, aim at improving its efficiency and undoubtedly benefit particular groups. Moreover, they have an important impact in terms of participants and expenditure involved.

JEL classification: J00; J08.

Keywords: European Employment Strategy; Eurostat Database; Active Labour Market Policies; Tax Credits; Reductions of Social Security Contributions.

1. INTRODUCTION¹

The construction of a Labour Market Policy (LMP) database raises many questions. The most important is certainly its scope, due to diversity of the goals and instruments that are generally included in the LMP and to the lack of clear frontiers distinguishing between employment, welfare, social or fiscal policies. Each country builds its own system of administrative and policy categories and the comparisons between countries have to take into account that similar designations can hide different effective policies. The recent movement of coordination of LMP within the framework of the European Employment Strategy tends to favour the adoption of a common language among the participant countries that introduces an apparent convergence of policies, however not always corresponding to a real convergence (Barbier, 2006). The Eurostat offers a harmonised LMP database that intends to be a valuable instrument for international comparisons in the field.

However, the database has been playing a small role on studies dealing with the European Employment Strategy (EES) and its correlated topics, as well as on those focusing on labour market and employment policies in general. Its role is often limited to the computation of the share of active and passive measures. Additionally, some measures to which the state devotes greater importance, covering large portions of the population, involving a significant amount of the state budgets and playing a crucial role in the implementation of the EES, as highlighted by the National Action Plans for Employment (NAPE), are not monitored by the Eurostat LMP database.

This paper intends to discuss, by using three meaningful labour market policy measures - tax credits in the UK, the *prime pour l'emploi* and general reductions of employers' social contributions in France - the importance of having a more comprehensive database, covering additional important policy measures and maintaining the current structure: stocks and flows of participants and public expenditure involved. This would carry valuable contribution to comparative studies, as long as the usual requirements concerning the policy context are met.

We proceed by questioning the scope of the current database, taking into account its specific aims. For that we discuss both the aim and the level of targeting that has been selected by the Eurostat and introduce in the discussion an assessment of the measures to illustrate the limits and fragilities of the database.

The Eurostat has started the construction and the publication of the LMP database in 2000.² According to the European Commission (2000: 3), this database intends to record labour market expenditure and participants and “*aims to provide comparable data for the follow-up of some aspects of the Employment Guidelines whilst taking into account national specificities (...)*”. Moreover, the scope of LMP database is defined as to include policy measures identified with “*Public interventions³ in the labour market aimed at reaching its efficient functioning and to correct disequilibria and which can be distinguished from other general employment policy measures in that they act*

¹ This paper was written drawing on helpful contributions from the researchers in the RESORE network, in particular those from Peter Urwin, Adréana Khristova and Jean-Pascal Higélé.

² This database maintains clear links with the OECD Labour Market Programmes database.

³ Central, state/regional or local government and the social security funds.

selectively to favour particular groups in the labour market.” (European Commission, 2000: 4). Broadly, the European Commission (2000) refers target groups as including the unemployed, people in employment but in risk of involuntary job-loss, and inactive persons who are currently not part of the labour force but who would like to enter the labour market and are disadvantaged in some way.

Tax credits in the UK, the *prime pour l'emploi* and general reductions of employers' social contributions in France are explicitly targeted to the labour market, aim at improving its efficiency and undoubtedly benefit particular groups (unemployed and inactive, low-wage and low-income workers and disadvantaged people). Because of the too narrow scope of its LMP selection, LMP database fails to include such measures - with important impact in terms of participants and expenditure involved - that apparently fit the broad objectives of the European Employment Strategy.

In what follows, we propose to detail the tax-benefit measures put in place by the UK – the tax credits (section 2) – and by France – *prime pour l'emploi* (section 3) – and also the general reduction of employers' social security contributions in France (section 4), suggesting that the general government resources allocated to them could also be accounted for in the LMP database. These measures are first briefly detailed in their formal design alongside with the characterization of the target population involved.

The arguing proceeds on the grounds that these are policies designed to improve labour market efficiency, they meet several of the general objectives of the European Employment Strategy, as well as those of the specific adopted Employment Guidelines. Furthermore, these policies broadly fit the requirements to be included as Employment Incentives (category 4) which, together with Direct Job Creation (category 6) are, on average, the most representative categories of active measures in the European Union in terms of expenditure and of participants involved (European Commission, 2000).

The line of argument is reinforced by the relevance of these policies in terms of the expenditure involved and number of participants (see Table 1, below).

TABLE 1: Brief outlook of the relative importance of tax credits and general reductions of social contributions

<i>Measure</i>	<i>Number of participants (millions)</i>	<i>Participants in % of the labour force (1)</i>	<i>Public expenditure (millions of euros)</i>	<i>Public expenditure in % of Eurostat's ALMP expenditure (2)</i>
UK				
WTC "Working Tax Credit" (April 2003)	2.3 ^(A)	7.9 % ^(A)	16351	648 %
CTC "Child Tax Credit" (April 2003)	7.4 ^(A)	25.1 % ^(A)		
FRANCE				
"Prime pour l'Emploi" (2003)	8.3 ^(B)	25 % ^(C)	2221	17 %
General reductions of social contributions (2003)	10.1 ^(D)	36.7 %	15039 ⁽³⁾	115 %

Notes:

(A) Own estimations based on the number of persons covered: couples (2 persons) plus single-person households (Source: HM Revenue and Customs, 2005).

(B) Number of tax households beneficiaries (Source: Ministry of the Economy, Finance and Industry; General Tax Directorate, Forecasting Directorate Analysis, in French NAPE, 2004: 154).

(C) Tax households' beneficiaries in % of total tax households.

(D) Data refers to April 2004 according to French NAPE 2004.

(1) Source: European Commission (2005a). Labour force = employment + unemployment.

(2) Source: European Commission (2005b). ALMP is the total of categories 2-7.

(3) Source: Acoess-Urssaf, in Rouxelin (2005: 2), table 2, corresponding to "Mesures générales d'encouragement à la création d'emplois et à la RTT dont Forec (champ 2003)."

Since the aim of LMP database is to provide comparative data to assess follow-through rates of the employment strategy, missing this information leads towards biased monitoring analysis, in particular, in regard to relative weight of active *versus* passive measures. For instance, among the adopted list of indicators to monitor the Employment Guidelines, only the ratio "LMP expenditure/GDP" is collected from the LMP database; even the follow-up of participants in active measures relies in national data sources (The Employment Committee, 2004 and European Commission, 2004b). Moreover, the LMP database publications are of widespread use in both official and academic studies, possibly leading to inaccurate results in assessing the functioning of the labour market (*e.g.*, European Commission, 2004c).

In section 5 we provide final remarks.

2. A CASE FOR THE INCLUSION OF UK TAX CREDITS IN THE EUROSTAT LMP DATABASE

This section aims at discussing the inclusion of the UK tax credits in the LMP database. We focus on Working Tax Credit (WTC), introduced in 2003, and the Child Tax Credit (CTC), two recent in-work measures upgrading on their predecessors: the Family Income Support (1971), the Family Credit (1988) and the Working Families' Tax Credit (1999).

To start with, we briefly describe the UK system of tax credits in order to argue how their formal design fit into the European Employment Strategy. We then proceed with the analysis of their major effects on the labour market, as well as with a tentative exercise on how tax credits would improve on the ALMP figures effectively recorded in the LMP database for the UK.

2.1. TAX CREDITS AND THE EUROPEAN EMPLOYMENT STRATEGY INSTITUTIONAL FRAMEWORK

Since one of the main aims of the LMP database is to provide comparative data to assess the follow-through rates of the employment strategy, we propose to argue that, in regards to the formal policy design, the UK tax credits fit the EES institutional framework.

Official European Council documents relative to either the Guidelines for the employment policies or to the specific recommendations for each Member State deliver motivation for including tax credits in the Eurostat LMP database.

We argue that tax credits fully fulfil the general horizontal objectives, roughly maintained for 2005-2008 (OJEC, 2005, L 205/23), regarding Full Employment and the Strengthening Social Cohesion. Regarding full employment, and according to the European Council 2005, policies should be pursued to improve, for the European Union, the overall employment rate. As for Strengthening Social Cohesion, *“Determined action is needed to strengthen social inclusion, prevent exclusion from the labour market and support integration in employment of people at a disadvantage (...)”* (OJEC, 2005: L 205/23).

Both these objectives are present ever since 1997, but the specific adopted Guidelines where tax credits could help their accomplishment have changed slightly. Up until 2003, tax credits could well fit “Improving Employability” – through transitions from passive to active measures – and “Strengthening the Policies for Equal Opportunities” – policies aimed at tackling gender gaps and reconciling work and family life –, as the several UK NAPEs reported.

Recently, tax credits can easily fit Employment Guideline n° 19 that relays upon financial incentives to encourage taking-up and remaining in work. Accordingly, Member States should *“Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive through: (...) continual review of the incentives and of the disincentives resulting from*

the tax and the benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates, notably for those with low incomes, whilst ensuring adequate levels of social protection (...)" (OJEC, 2005: L205/25).

In fact, the Working Families' Tax Credits (WFTC) were included in the "Making Work Pay" reform package of the Government Budget in 1998 (ECOTEC, 2002: 23), aiming at providing a comprehensive strategy to move people from welfare into work by making work financially more attractive (Peer Review, 2000: 1, Brewer, 2003: 1). The recently introduced (2003) Working Tax Credit (WTC) aims to *"relieve in-work poverty and enhance work incentives for workers facing disadvantage with more financial help to those in low-paid work, whether or not with children."* (Inland Revenue, 2002a: 1). Currently (HMRC, 2007), families must have at least one member in-work (at least 16 hours a week) to qualify for the WTC. Single people without children are entitled to a credit of £1730 *per annum* (~ £33.27 per week) while couples with or without children and lone parents are entitled to a credit of £3430 *per annum* (~ £65.96 per week). Moreover, there are extra amounts for some adults with disabilities and for people over 50 returning to work. Clearly the WTC is an active LMP measure as it provides financial support to in-work situations, proportionally higher for particular groups experiencing disadvantages in entering or re-entering the labour market, in contrast, for instance, with the passive nature of the unemployment benefit.

Tax credits also help to accomplish Employment Guideline n° 18 (2005-2008): *"Promote a lifecycle approach to work through (...) resolute action to increase female participation and reduce gender gaps in employment, unemployment and pay, better reconciliation of work and private life and the provision of the accessible and affordable childcare facilities and care for other dependants (...)"* (OJEC, 2005: L205/24). In fact, additionally to the lone parents more generous support, the WTC includes a childcare element (HMRC, 2007), according to which families with children where all adults are working, caring or disabled can receive help with 80% of approved childcare costs below a generous maximum (£175 per week for those with one child under 16, £300 for the others). The other successor measure of the WFTC is the Child Tax Credit, also introduced in 2003, with the aim to *"tackle child poverty and provide financial support for households with children, by providing a seamless, portable and secure system of support for households with children"* (Inland Revenue, 2002a: 1). Currently (HMRC, 2007), the CTC is paid to the main carer, irrespective of employment status, and consists of two components: a family element of £545 *per annum* (~ £10.45 per week), doubled in the financial year of a child's birth and an amount per dependent child of £1845 *per annum* (~ £35.48 per week, and higher for disabled children).

By providing additional financial support to households with children, both the WTC and the CTC enhance the reconciliation of work and family life. Moreover, and in this regard, tax credits are also in line with the aims underlying the Council specific recommendations to the UK. The crucial UK labour market bottleneck is the concentration of inactivity and long-term unemployment amongst particularly disadvantaged persons, namely lone parents and households with no one in work (OJEC, 2003: L 197/30, among others) - lone mothers had the lowest employment rates, substantially below the EU average; this requires that active labour market policies should be reinforced. Policies are recommended to further improve the access and the

affordability of childcare with a view to make it easier for parents to take-up employment (OJEC, 2001: L 22/37, among others) and to reduce the gender gap in terms of full-time equivalents once part-time work is particularly concentrated among women in the UK (OJEC, 2000: 40). In order to promote quality employment, namely full-time employment, the WTC also includes a bonus for those working 30 or more hours per week (HMRC, 2007).

Families with annual gross incomes below £14 495 (CTC) or below £5220 (WTC) are entitled to the full amounts. Above these thresholds, the tax credit received is progressively reduced. Thus, these measures are broadly targeted at low-income households, either with or without children, increasing their financial support to enhance employability.⁴ They respect to a mechanism of negative tax, applying according to the level of wage income, hours of work and the composition of the family, and using resources from general taxation under the management of the UK tax system (Inland Revenue)⁵.

In spite of the adequacy of tax credits in fulfilling the aims compatible with those of the European Employment Strategy, tax credits have always been absent from the Eurostat LMP database. Moreover, tax credits are non-negligible policy measures in terms of the expenditure and the number of participants involved. Together, in-work CTC and WTC were disseminated over roughly 20% of the labour force in the fiscal years of 2003-04 to 2005-06. From 0.14% of the UK GDP in 1999-00 (total tax credit expenditure according to HM Treasury, 2004), expenditure related only to the in-work tax credits steadily increased to 1.2% of the UK GDP in 2005-06 (HM Revenue and Customs, 2007). This financial effort is substantially larger when compared to that involved in the active labour market policy measures effectively recorded in the Eurostat database and which represented, for the EU15, only 0.55% of the GDP in 2005 (see Table 4, below).

2.2. THE EFFECTIVE IMPACTS OF TAX CREDITS ON THE LABOUR MARKET – A TENTATIVE ASSESSMENT

In order to assess how relevant these measures are to fulfil the aims of the EES, we now try to account for the effective impacts of tax credits. Instead of an exhaustive analysis, we rely in several studies (mostly on the WFTC⁶), either from official or independent offices, to exemplify the impacts of tax credits in three target variables: employment, income and gender equality.

Employment Effects

According to Peters *et al* (2004: 344), “*the literature has shown that family tax credits can be effective at combating unemployment and also long-term unemployment*”. According to ECOTEC (2002), since the introduction of the WFTC, the take-up rates have steadily increased and were higher among those in most need (HM Treasury,

⁴ Eligibility: those with childcare responsibilities (CTC) and individual workers working at least 30 hours a week and families with children or with a disabled element, provided that one of the persons works at least 16 hours a week, for the WTC (Brewer, 2003: 5).

⁵ Peer Review (2000: 2).

⁶ Because the CTC and the WTC have only been introduced in 2003, there are few data and studies available.

2005). The recent introduction of CTC and WTC also improved on the simplification of the claims processes, making it easier for families to apply (Inland Revenue, 2002a: 4) and, thus, improving the take-up rates. Table 2 shows the evolution of recipient households entitled with WFTC/WTC in recent years.

TABLE 2: WFTC/WTC recipient households (thousands)

November 1997	November 1999	November 2001	November 2002	July 2003	April 2004	April 2005	April 2006
790	965	1294	1376	1586	1824	1813	1884

Sources: ECOTEC (2002), Inland Revenue (2002b, 2004), HMRC (2006).

Moreover, and in regard to the employment status, data in November 2002 (Inland Revenue, 2002b: 2) shows that most of the families were, in fact, benefiting from this additional element. Most of the beneficiary families were also, structurally, employees (in 2002, self employed receiving the WFTC represented 9.5% of total recipients). From 2003-04 to 2005-06, 38% to 0 39% of the in-work tax credits (in-work CTC and WTC) benefiting families received the 30 hour element (HM Revenue and Customs, 2007).

Roughly stable relative to the 2003-04 fiscal year, the disabled (and severely disabled) element was entitled to 2.6% of the in-work tax credits benefiting families, while the 50+ return to work element covered 0.3% of the recipient families in 2005-06. The main important additional element is the childcare element, covering 7.5% of the tax credit benefiting families in 2005-06 (HM Revenue and Customs, 2007).

There are few available studies on the impact of tax credits on employment. Blundell and Reed (2000), summarise three available studies from the IFS⁷ predicting the impact of the WFTC on employment by following distinct methodologies (Gregg *et al*, 1999, Blundell *et al*, 1998 and Paull *et al*, 1999)⁸. The overall impact on employment is estimated in roughly 3% with the highest employability gains accruing to single mothers (1.6% to 2.20%) and to married women whose partner is not working (1.32% to 1.75%). According to Gregg *et al* (1999)⁹, estimates of the gross increase in participation were of 92 thousand additional workers, 60 thousand women and 32 thousand men. The aggregate employment effect was not as strong because of the negative effect the WFTC was expected to have on married women with children and employed partners (Peer Review, 2000: 4).

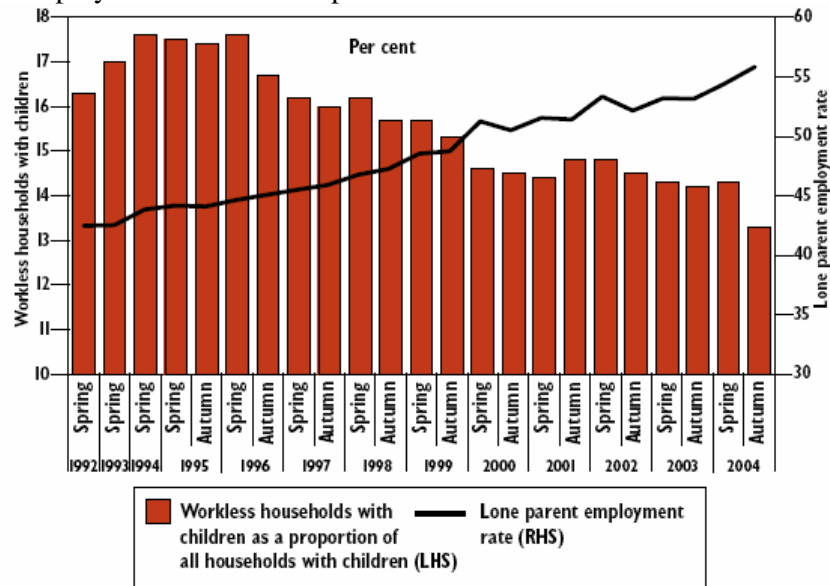
Nevertheless, and according to the UK NAPE (2004: 30), the employment rate for lone parents increased from 45.3% in 1997 to 54.3% in 2004, and the WTC has also improved work incentives for workers aged 25 or over, without children. According to independent studies reported by the HM Treasury (2005: 28), the childcare element of the WFTC has also helped families in getting back into work.

⁷ Institute for Fiscal Studies.

⁸ Research by Paul Gregg, Paul Johnson and Howard Reed, funded by the Joseph Rowntree Foundation (1999); Research by Richard Blundell, Alan Duncan, Julian McCrae and Costas Meghir, funded by the Bank of England and the ESRC Centre for the Microeconomic Analysis of Fiscal Policy at IFS (1998); Research by Gillian Paull, Ian Walker and Yu Zhu, funded by the Nuffield Foundation (1999).

⁹ See previous footnote.

FIGURE 1: Employment rate for lone parents and workless households with children



Source: HM Treasury (2005: 30).

Figure 1, above, illustrates how the introduction of tax credits made work financially more rewarding, especially for lone parents and workless families. These are, in fact, the typical disadvantaged groups with higher than average unemployment and long-term unemployment rates towards which the European Council severally addressed its labour market policy recommendations.

Income Effects

Targeted at low-wage employed and at low-income families with children, the WTC and CTC cover mostly employees in the services and public sectors. According to the Inland Revenue (2002b: 1), and in regards to the WFTC recipients, “*nearly half of lone parent recipients had administrative, secretarial or personal service occupations. For couples, over half the main earners had skilled trades, were process, plant or machine operatives or had elementary occupations*”; there are also individuals in top-up occupations receiving the WFTC, although representing only nearly 5% of the employed persons in those groups. Thus, the tax credits were clearly benefiting low to mid-skilled (and, thus, low to mid-paid) occupations.

The employment effects arose, essentially, because WFTC and WTC improved the in-work financial support to low/moderate-income families, thus tackling unemployment, poverty and inactivity traps. According to the Peer Review (2000)¹⁰ on the UK tax and benefit reform, WFTC have led to a 9-10% increase in the incomes of families with children on low income. Although work incentives were improved on a household basis, second earners in low-income families with children could face lower incentives to work.

¹⁰ The Peer Review was organised by the HM Treasury under the mutual learning programme.

Comparatively to the predecessor Family Credit (FC), the WFTC substantially increased income for in-work families as it provided similar rents, relative to unemployment benefits, even for typical entry-wage jobs. According to HM Treasury (2005: 28), in 2000, the WFTC improved average income by 14.1%, among the families receiving the FC in 1999, improved the income of lone parents that moved in-work by 44%, among those receiving the Family Income Support in 1999, and reduced sharply the risk of severe hardship relative to the Family Credit for both lone parent and couple families.

Based on the Inland Revenue (2002b), weekly average awards of the WFTC (including childcare charges) amounted weekly up to £83.96 (£158.2) in November 2001 and £86.78 (£178.3) in November 2002. Under the new WTC and the CTC together, awards range from £29.2 to £169.2 per week for the WTC and from £10.45 to £51.75 per week for the CTC (by simply adding the highest tax credit additional element), according to HM Treasury (2002: 32). Within these bands, and relying on the average award, we can easily conclude that most of the recipient families are concentrated in the highest values for the awards, as Inland Revenue (2002b) illustrates. Average awards clearly followed an important growth path since the introduction of the WFTC in 1999: in 1989, average FC awards were slightly above £25 per week and, by the end of 2002, the average WFTC was close to £90 per week, an increase positively biased towards lone parents (Inland Revenue, 2002b: 8).

“The Working Tax Credit (WTC) has improved work incentives for workers aged 25 and over without children. From October 2003, a childless or disabled couple aged 25 and over in full-time work will be guaranteed at least £187 per week. This represents an increase in gains to work to £40 per week, compared with £15 per week before the introduction of the WTC. The reforms also mean that a single person aged 25 or over without children working full-time on the National Minimum Wage will be more than £25 a week better off from October 2003 compared with the previous system – an 18% increase in income” (UK NAPE, 2003: 36).

Due to progressive reductions, entitlement is exhausted at an income of around £10 857 *per annum* for a single person without children, £13 230 for a lone parent or a couple with children working part time, and £14 911 for a lone parent or a couple with or without children working full-time. A family with children spending the maximum allowed on childcare (£10 430 a year) can still be entitled to the Working Tax Credit at highest income stepladder, representing roughly 392% of the National Minimum Wage (at the 2005 hourly rate of £4.85, HM Treasury, 2005: 24). This confirms that although these *“reforms have been targeted largely at low-paid families with children there is evidence to show that other couples and individuals are also benefiting”* (ECOTEC, 2002: 31). In addition, recall that individuals in Associate professional and technical occupations, Professional occupations and even top-up Managers and senior officials were estimated to be receiving the WFTC, representing nearly 13% of the recipients households in 2002 (Inland Revenue, 2002b).

Also in line with the Employment Guideline n° 19, the overall reform package including, besides tax credits, the reforms to National Insurance Contributions (NIC) and income taxes, made the number of families facing marginal deduction rates in excess of 70% to fall substantially since 1997-8, the same happening with the families

facing the highest – above 90% - marginal deduction rates. Table 3 shows the effects of the overall reforms on marginal deduction rates.

TABLE 3: The effect of the Government's reforms on high Marginal Deduction Rates

Marginal Deduction Rate¹	Before Budget 1998	2005-06 system of tax and benefits
Over 100 per cent	5000	0
Over 90 per cent	130 000	30 000
Over 80 per cent	300 000	165 000
Over 70 per cent	740 000	235 000
Over 60 per cent	760 000	1730 000

¹Marginal Deduction Rates are for working households in receipt of income-related benefits or tax credits where at least one person works 16 hours or more a week, and the head of the household is not disabled.

Note: Figures are cumulative. Before Budget 1998 based on 1997-98 estimated caseload and take-up rates; the 2005-06 system of tax and benefits is based on 2003-04 caseload and take-up rates.

Source: HM Treasury (2005: 30).

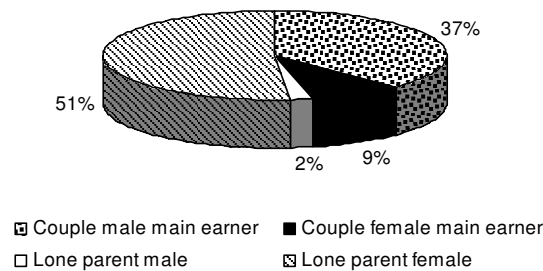
According to the UK NAPE (2003: 37), the introduction of tax credits was the main policy measure responsible for the increase in the number of households facing marginal deduction rates of between 60 and 70%.

However, a critical assessment on the work incentives attached to the UK tax credits is provided in Blundell and Meghir (2001) and Blundell and Hoynes (2001). The first argue that tax credits are means tested and have no time-limit, two features Eurostat ALMP do not match overall. The most important implications are that these schemes “*reduce human capital accumulation and may thus create a culture of dependency on the programme*” (Blundell and Meghir, 2001: 262). They also rely on studies testifying that wage progression is low and, thus, exiting the low-pay jobs and the tax credit programme is proved to be a difficult task. Additionally, the smaller incentives to work when compared, for instance, with the US Earned Income Tax Credit may result because they are taken as income for the eligibility condition to apply for other transfer programmes, reducing net-benefits; at the same time, UK's in-work schemes were implemented alongside with a stability or even an improvement in the generosity of out-of-work benefits, inducing “*rather modest increases in the incentives to work.*” (Blundell and Hoynes, 2001: 28)

Gender Effects

Looking at Figure 2, lone mothers households represented more than half of the families in recipient of the WFTC.

FIGURE 2: Distribution of WFTC-recipients families by type



Source: Inland Revenue (2002b: 11).

Relying on the Impact Evaluation Report (ECOTEC, 2002), since the introduction of WFTC and up to 2001, additional 129 700 lone parents were claiming WFTC, 94% of which being women. However, and overall, the proportion of females over those in-work receiving the WFTC and WTC plus CTC (since 2003) peaked in 2002, 97%, to be reduced in 2004, to 89% (Sources: ECOTEC, 2002, Inland Revenue, 2002b, 2003 and 2004); taking WTC only, the female weight was around 60% (Inland Revenue, 2004).

According to the same report, female unemployment was 78 thousand lower among the women of working age in 2000, when compared to 1998, but these are overall effects of the reforms introduced in 1999, and of difficult assessment by individualised policies.

The WTC provides help up to 70% of the childcare costs, enabling even parents on the lowest incomes to work (HM Treasury, 2005: 29). Such support helps shrinking the highest gender gap in employment among the EU countries attributable to the impact of parenthood, an explicit recommendation by the European Council in 2001 (OJEC, 2001: L 22/37).

Besides tax credits explicitly improve the reconciliation between work and family life, in particular for women, the WFTC (and the new WTC as well) included a 30-hour credit to incentive full-time jobs. This feature is important as the gender gap in employment is biased towards women in part-time jobs in the UK. Alleviating such disparity was a concern of the European Council in the policy recommendations of 2000. Data for 2002 shows that 58% of the WFTC recipient families were receiving the 30-hour additional award (Inland Revenue, 2002b: 2).

2.3. INCLUDING TAX CREDITS IN THE EUROSTAT LMP DATABASE: AN EXERCISE

In spite of, apparently, tax credits being targeted to improve work attractiveness and to meet the structural imbalances in UK labour market, the Eurostat LMP reports have never addressed such policies, underestimating the role of active labour market policies (ALMP) in the UK and thus misleading results in studies with cross-countries comparative purposes. For instance, relying on the Eurostat statistics on LMP in 2003, and excluding Greece, the UK exhibited the lowest expenditure effort on ALMP

(categories 2-7), 0.16% of the GDP when compared to the EU-15 average of 0.71% of the GDP. Active expenditure on Employment Incentives, to support the transition of unemployed into regular market jobs, typically through wage subsidies or exemptions to employers' social contributions (Melis, 2005: 5) represented, in the UK, the lowest weight in total ALMP expenditure, 1.6% in 2003, when compared to the EU-15 average of close to 20%. Up until 2005, Eurostat records on UK ALMP expenditure have fallen to 0.12% of the GDP against 0.55% of the correspondent for the EU15 (Table 4, below).

TABLE 4: Eurostat statistics on LMP expenditures

LMP database categories	2003	2004	2005
(2-7)/(2-9) UK	40.6%	45.1%	38.2%
(2-7)/(2-9) EU15	33.3%	30.6%	27.8%
(2-7)/GDP UK	0.16%	0.15%	0.12%
(2-7)/GDP EU15	0.71%	0.63%	0.55%
(2-9)/GDP UK	0.39%	0.34%	0.30%
(2-9)/GDP EU15	2.12%	2.05%	1.96%

Even excluding tax credits, the UK spends substantially more on active policies relative to the EU15: in 2005, roughly 38% of total (categories 2-9) LMP expenditure was on ALMP against the EU average of nearly 28%. Melis (2005: 4, 7) shows that between 1998 and 2003, total expenditure on both active and passive LMP has, on an annual average, fallen around 7% in *per capita*¹¹ real terms in the UK, with expenditure attached to Employment Incentives exhibiting an estimated annual decrease of 33% in *per capita* real terms. Strikingly, however, the overall unemployment rate in the UK has fallen, between 1998 and 2003, from 6.2% to 4.9%.

Taking now the information on total in-work tax credits expenditure and participants released by the HM Revenue and Customs (2005, 2006 and 2007), reproduced in Table 5, below,

TABLE 5: Expenditure on in-work tax credits (£ million) and participants (thousands)¹²

	2003-04	2004-05	2005-06
Total expenditure	11315	12357	13111
% of GDP	1.01%	1.04%	1.06%
Participants	7571	7836	7824
% of the labour force	25.9%	26.7%	26.4%

together with data on labour force and on the gross domestic product (GDP) in the UK¹³, we can conclude that:

- tax credit expenditure, alone, represents between 1 and 1.2% of the UK GDP;
- by adding tax credits expenditure to that effectively record by the Eurostat in categories 2-7, total ALMP in the UK would represent 84% and 86% of total LMP

¹¹ Considering population aged 15-64 years old.

¹² Own estimates based on the number of households entitled: couples (2 persons) plus single-person households.

¹³ Source: <http://epp.eurostat.cec.eu.int/queentree/>... - Annual data (extraction date: July 2007).

expenditures (categories 2-9) in 2003 and 2005, respectively. This compares with 33% and 29%, in 2003 and 2005, for the EU15 average;

- between 2003 to 2005, real terms *per capita*, annual average expenditure growth on tax credits amounted to 4,6%.¹⁴

Finally, and regarding participants, the in-work CTC together with the WTC covered, in 2003 to 2005, around 26% of the UK labour force. These figures are difficult to compare with the representativeness of those in the Eurostat LMP database because of the missing data on LMP stocks of participants for most of the EU15 countries. For instance, for Germany and the Netherlands, two countries with higher than EU15 average expenditure on LMP, participants in total LMP (categories 2-9) represented, in 2005, 21.8% and 13.4% of total labour force, respectively.¹⁵

3. THE FRENCH PPE - *PRIME POUR L'EMPLOI*

3.1. DESIGN AND AIM OF THE MEASURE

The PPE is referred in the NAPE as “*the primary tool for making employment more remunerative, designed to help offset the higher tax rates and reduction in social security assistance¹⁶ that accompany a return to work*” (French NAPE 2003: 116). It intends to favour transitions from inactivity and unemployment to employment by means of improving disposable income instead of reducing social transfers (Evaluation de la Strategie Europeenne pour l'Emploi, 2002: 22).

Established in 2001, the PPE is a tax credit that increases net income for low-income working people. It applies to tax households in which at least one person holds a job and for which the declared income for income tax purposes is below a ceiling of 1.4 times the minimum wage (SMIC), or 2.1 times the SMIC for a married couple, one of whom is working. The basis for computation are working time, family status, number of children, taxable income of the household, individual gross income and the gross income of the spouse. The tax credit is made up of a variable component and a lump-sum component. The variable component is calculated on a graduated, increasing basis according to the number of hours worked (between 30% and 100% of the SMIC)¹⁷ and on a graduated, decreasing basis according to the wage, which may range between 1 and 1.4 the SMIC. The lump-sum component of the PPE takes the family situation into account (French NAPE 2003: 138) with bonus for inactive spouses and children.

It has been reformed a number of times. The reform of 2003 improved slightly the situation of those working part-time or only part of the year. Another improvement was the establishment of a cash advance - paid if some illegible requirements are met -

¹⁴ Computation of the GDP deflator using GDP at current and constant prices in the Eurostat database.

¹⁵ Source: <http://epp.eurostat.cec.eu.int/queentree/...> - Annual data (extraction date: July 2007).

¹⁶ The complete loss of minimum integration income and loss of part of individual housing benefit (French NAPE 2004: 66).

¹⁷ The gross income has to be at least 30% of the SMIC. In the case of a couple with a sole wage earner the gross income of the spouse is not taken into concern. In the case of double earner couples – both are required to have a gross income of at least 30% of the SMIC – each of them is entitled to an individual amount.

because the bonus, allocated to the income tax, is disbursed in the subsequent year (French NAPE 2004: 66).¹⁸

3.2. MOTIVATING THE INCLUSION OF PPE IN THE EUROSTAT LMP DATABASE

In this section we will argue in favour of the inclusion of the PPE in a renovated LMP database. Its integration in the EES and its effective impacts in the functioning of the labour market are considered.

The French employment policies have changed since the Luxembourg process (even if in a clear path dependency process). They changed in terms of the setting of a new reference framework (namely the influence of Guidelines), new problems raised (e.g. the reference to the employment rate), new decision processes involving other ministries than the Ministry of the Employment, namely for policies involving household taxes, and in terms of the contents of the policies: for what matters here, the reinforcement of active policies, the reforms in the tax and benefit system in order to avoid inactivity traps and the reduction of employers' social security contributions of low wage jobs in connection with the reduction of working time (Evaluation de la SEE, 2002).

From the beginning, the French employment strategy is oriented towards improving employability, by modelling benefits, taxes and training systems and, in the terms in use in Employment Guideline n°19. The French NAPEs have included, on a regular basis, measures that aim at ensuring that it is worthwhile to work, continue to work or return to work (for instance, French NAPE 2003: 39).

Council recommendations on the implementation of Members' States employment policies insist on pursuing the reduction of the marginal effective tax rate to encourage workers to seek and remain in work, particularly those unskilled and low-paid (OJEC, 2002: L 60/75).

Assessing the effective impacts of the PPE on the labour market functioning

This measure covers a large proportion of the employment and the labour force. Available data refer only to tax households (see Table 5, below), with no information on individual beneficiaries. But if at least one member of the household holds a job, a minimum of 8.3 million of workers are beneficiaries of this measure – this represents a large proportion (about one third) of the total employment in 2003. It also mobilises a large amount of public resources (see Table 1, in section 1, above). Public expenditure on the measure progressed from 1220 million euros in 2001, to 2221 million euros in 2003 0.14% of the GDP. The latter is an interesting figure when compared with the corresponding indicator of the public expenditure devoted to active measures (categories 2-7) in the LMP database: 0.82% of the GDP.

¹⁸ The measure has been modified in subsequent periods: it has been paid in the form of twelve monthly instalments since summer 2006, and the amounts paid in 2005 and 2006 have been raised (Republique Française, 2006).

TABLE 5: Coverage of the PPE

	2001	2002	2003
Tax households beneficiaries of PPE (millions)	8.7	8.5	8.3
% of total tax households	26.3 %	25.5%	25%

Source: Ministry of the Economy, Finance and Industry; General Tax Directorate, Forecasting Directorate Analysis, in French NAPE (2004: 154).

The characteristics of the beneficiaries are not well known, by lack of published studies, but, given the conditions of entitlement, they must be close to the majority of the beneficiaries of target employment policies, that is to say, those of a secondary labour market.¹⁹ According to available information (INSEE, 2002²⁰) more than one third of the beneficiaries were under 30 years old and 34% have worked short working time, because of part-time work and or because of not working all the year long.^{21 22} About two thirds of the beneficiaries declared revenues from work between 1 and 1.4 of the SMIC, what is consistent with the entitlement conditions.

The actual debate on the PPE focuses on its effects on employment and on income redistribution.

Employment effects

To access the first topic, the question is if the PPE can reduce unemployment and if it can foster labour supply and the employment rate. Some studies (*e.g.*, Stancanelli and Sterdyniak, 2004) try to measure incentive and disincentive effects of the PPE, by estimating the financial gains and the marginal effective tax rates for different cases of beneficiaries taking a job, depending on the composition of the household and on the previous household supply of labour and on the type of working time (full time or part-time). The differences that were found among different groups of individuals do not allow the statement of general conclusions. Other studies state that inactivity traps have been removed.²³ Also the NAPEs are very optimistic in this sense. However, the decision of participation in the labour market is much more complex²⁴ and the simulation of the labour supply effects requires the use of very complex models with the adoption of controversial hypothesis.

A review of several ex-ante studies presented by Stancanelli and Sterdyniak (2004) states that the positive effects of PPE over the supply of labour are small, ranging

¹⁹ In the sense of the labour market segmentation theory of M. Piore.

²⁰ The data are extracted from an analysis of a random sample of 500 000 fiscal declarations of beneficiaries of the PPE concerning the revenue of the year 2000.

²¹ In 2000, 16.7% of the total employment was in part-time (European Commission, 2004a).

²² It should also be noted that the bonus for those taking part-time has been improved by the reform of 2003.

²³ According to C. Hagneré, A. Trannoy (2001) “*L’impact conjugué de trois ans de réforme sur les trappes à inactivité*” *Economie & Statistique*, n° 346-347, 2001, reforms at the end of the nineties together with the PPE tend to eliminate short term inactivity traps (Evaluation de la Stratégie Européenne pour l’Emploi, 2002).

²⁴ Laroque and Salinié (2000) and (2002).

between 0.2% and 0.4%. Therefore, the debate pursues on the adequacy of an institution such as the PPE to the French labour market, very complex in the architecture of its incentives, very far from achieving full employment, and with high minimum wages.²⁵ In the search for better alternatives, should not demand-side measures be more effective to stimulate the hiring of less skilled workers? All the alternatives have positive and negative effects and the choices are difficult.

Income and redistribution effects

Income and redistribution effects of PPE are also under debate. First, the increase in the disposable income of the households is quite modest. This is due to the low level of the bonus - when compared with the UK tax credits - even if every year the average annual amounts per household have been increasing: from 145 euros in 2001, to 250 euros in 2003 (French NAPE, 2004: 66). Second, available ex-ante studies conclude that redistributive effects (comparing those in and out of PPE²⁶) would be small (Stancanelli and Sterdyniak 2004: 20). In 2003, the adjustment of the scale used to calculate the PPE in the benefit of those working part-time (all year round or only part of the year) would *“result in an increase of more than 10% in the financial gain stemming from a resumption of employment for a single worker on the RMI²⁷ returning to half-time employment at the minimum wage”* (French NAPE 2003: 138²⁸). Estimations made by Legendre, Lorgnet, Mahieu and Thibault (2004: 53) account for important redistributive effects (among recipients of the PPE) of this reform: those individuals in the first decile of living standard benefited noticeably the most.

In conclusion, PPE is a labour market policy measure intended to improve the functioning of the labour market, in the sense expected by the EES and using their selected instruments: making work pay by enhancing in-work revenues. The measure is also targeted to particular groups and improvements in the targeting have been attempted over time. Its employment and redistribution effects are not yet very clear, and seem, for the moment, quite modest. Ex-post studies in order to better evaluate these effects are still missing. However, we would argue that the degree of performance has never been a criterion to the inclusion of a policy measure in the Eurostat LMP database. Several of the currently reported target measures have negligible effects on the functioning of the labour market. The point here is that there is no reason for excluding a measure like PPE from the Eurostat LMP database.

²⁵ See, for instance, Cahuc (2002).

²⁶ For those with the most modest income because those with insufficient pay in employment or out of employment have no access to the PPE due to entitlement conditions.

²⁷ *Revenu Minimum d'Insertion*, the French system of minimum income.

²⁸ *“More specifically, he or she will benefit from a theoretical additional income of €104 per year due to the PPE, without taking into account the indexing of the PPE scale or any increase of the SMIC”* (French NAPE 2003: 138).

4. GENERAL REDUCTION OF EMPLOYERS' SOCIAL CONTRIBUTIONS ON LOW AND MID-LEVEL WAGES IN FRANCE

4.1. DESIGN AND AIM OF THE MEASURE

In this section we focus on the *general* reductions of employers' social contributions in the sense that they apply to all wage workers employed in the private sector, irrespective of their industry, geographical location or the age of the worker.²⁹ But they are also *targeted* to low-level of wages, up to a certain ceiling that has been changing throughout the time.

The implementation of general measures to reduce employers' social contributions started in France in 1993. Since then, several modifications have been made respecting the level of wages covered (from 1.1 to 1.7 times the minimum wage, to finally be fixed at 1.6 in July 2005), the degree of reduction (from 5.4 to 26% of contributions), and respecting the form of reduction (from a scale in stairs to a linear decreasing scale).³⁰ As suggested by L'Horty (2006), understanding the "*demography*" of these reforms helps understanding the objectives of the measures. These measures often aim at encouraging the hiring of low-skilled workers (see, for example, the French NAPE 2003, 2004) but their motivation has been more complex and changing. The first law of Prime Minister Balladur had the intention of reducing labour costs in general, but this objective failed by budgetary reasons; the reduction was limited to low wages. The reform of Alain Jupé in August 1995 has been conceived to avoid the raising of labour costs associated with the raising of the minimum wage that was set at the time. Accordingly, this type of measures has been classified as "*defensive reductions*". The reform of 1996, together with the simplification and harmonization of the system – reduction of 18.2 % of social security contributions at the level of minimum wage and a linear decreasing reduction for higher wages - was also limited by budget constraints, which led to cover jobs paid up to 1.33 times the minimum wage. The reduction to 1.3 times the minimum wage in 1998 had the same meaning. Under L. Jospin, reductions of social security contributions were reformed in order to compensate higher costs induced by the reductions in working time (2000). Under the reform of 2003 (the Fillon law) that unified the systems (incentives became irrespective of working time), the reductions of charges were also defensive against the higher minimum pay; the ceiling was then fixed at 1.7 times the minimum wage. The last reform returned back to 1.6 minimum wages for budgetary considerations. After all, and in contrast with alleged aims stated by the NAPE, "*None of the reforms have organised an offensive reduction of the labour cost of low-skilled work with the aim of reducing unemployment of low-skilled workers*" (L'Horty 2006: 3) or, in other words, "*to optimise employment effects*" (Gafsi, L'Horty and Mihoubi, 2005).

²⁹ Reductions of contributions also occur for target groups such as youths, unemployed, certain geographic areas and household employment. These groups are not considered here because they are included in the Eurostat LMP database.

³⁰ In the presentation of these measures we will follow closely the synthesis note by L'Horty (2006). These modifications do not include specific measures in the frame of the reduction of working-time policy (measures known as "*Robien*" and "*Aubry I*").

4.2. DISCUSSING THE INCLUSION OF THE GENERAL REDUCTION OF EMPLOYERS' CONTRIBUTIONS IN THE EUROSTAT LMP DATABASE

General reductions of employers' social security contributions are selected to integrate the EES for France, especially under Guideline n° 22: "*Ensure employment-friendly labour cost developments and wage setting mechanisms by (...) reviewing the impact on employment of non-wage labour costs and where appropriate adjust their structure and level, specially to reduce the tax burden on the low-paid*" (OJEC, 2005: L205/26). Several issues of the French NAPE assume that decreasing labour costs will create jobs for low-skilled workers. Again, in the new National Reform Programme for Economic and Social Growth of October 2005³¹, "*the battle for jobs serving economic growth*", has as its first measure "*a) Promoting the employment of the least skilled by lightening payroll taxes*"³². These measures became the most important type of employment measures in France. Nowadays they cover almost two thirds of the wage employment, and between 2002 and 2004 public expenditure with foregone contributions was about 15 000 million euros per year³³, 1% of the PIB in 2003.³⁴

Evaluations of the impact of these measures on low-skill employment present contrasted results.³⁵ Those disparities may be explained by the adoption of different evaluation methods (*ex ante* or *ex post*), different hypothesis about the behaviour of firms and employees, different macroeconomic links and the nature of data (firm or household-based). However, the main source of disparity is the definition of low-skilled employment. It may be used a scale of wage, a scale of schooling or an occupational hierarchic scale. This choice has important consequences on the degree of substitution between different categories of workers, a crucial factor in the estimation of the employment effects. Finally, another source of disparity of the results in the studies is the variety in the design of the measures throughout time.

To sum up the results in the studies, with a budget of 5 000 million euros is possible to create or maintain 250 000 full-time jobs paid at the minimum wage. So, an annual budget of about 15 000 million euros in recent years will correspond to 750 000 jobs (Gafsi, L'Horty and Mihoubi, 2005).³⁶ What to conclude about the effects on low-skill employment? Reductions seem to be a powerful explanation to the raising of the share of low-skill employment in total employment since 1992, but they are a much weaker

³¹ Republique Française (2005), National Reform Programme for Economic and Social Growth, Working Document, October 2005, <http://www.sgae.gouv.fr/actualites/docfiles/traductionENPNR.pdf>. This document replaces the previous NAPE, as explained in the site of the European Union: "*Every Member State draws up a National Reform Programme (until 2005, National Action Plans) which describes how the Employment Guidelines are put into practice at the national level. They present the progress achieved in the Member State over the last 12 months and the measures planned for the coming 12 months: they are both reporting and planning documents.*" (http://ec.europa.eu/employment_social/employment_strategy/national_en.htm)

³² Official translation of "*a) Promouvoir l'emploi des moins qualifiés par l'allègement des prélèvements sociaux*" of the French version (p. 25).

³³ Source: Acof - Urssaf (Rouxelin, 2005: 2). It covers general reductions concerning low wages and working-time reductions.

³⁴ French NAPE 2004, table 20.

³⁵ Following the synthesis of L'Horty (2006) over 14 studies that have been taken into account, the employment may be multiplied by a factor between 1 to 4.5.

³⁶ The estimation of the impact over skill employment is still more uncertain in the studies surveyed by L'Horty 2006. For a more in-depth presentation see Gafsi, L'Horty and Mihoubi, 2005.

explanation for the rising of total employment and low-skill employment (Gafsi, L'Horty and Mihoubi, 2005).³⁷

If economic evaluations lead to less optimistic results than it was expected respecting a large group of beneficiaries and budgetary costs, this does not invalidate that they are the most important employment measure used in France. By showing the various modalities of an employment policy consisting of subsidies to firms in the form of reduction of social contributions, we argue that these measures could be included in the Eurostat LMP database: they are, in fact, mainly targeted to particular groups and to low and mid-wage jobs.

Apparently, for these measures to improve over the employment of the low-skilled, of the low-wage/income and that of those facing a higher risk of unemployment, their target should be further developed. Indeed, a better targeting, closer to the current database underlying criteria, would enlarge legitimacy for the inclusion of these measures in the Eurostat LMP database. However, if social contributions evolve towards a formal system of scales (as those applying to the income taxes), changing the current nature of the socialized wage (Friot, 1998), these measures will be less perceived as labour market policies.³⁸

³⁷ There is no necessary coincidence between low-wage jobs, beneficiaries of reductions and low skill workers (Jamet, 2005, Gafsi, L'Horty and Mihoubi, 2005).

³⁸ The E. Malinvaud report *Les cotisations sociales à la charge des employeurs: analyse économique*, Rapport du Conseil d'Analyse Economique, 1998, proposed the setting of an increasing rate for employers' social security contributions (L'Horty, 2005).

5. FINAL REMARKS

In this text we discuss if UK and French tax credits and general reductions of social contributions in France could be included in a renovated Eurostat LMP database, especially because of the level of public expenditure and the number of participants. We have already presented, above, the lines of argument: these measures are a too much influent labour market policies to be in some sort neglected by the harmonised European statistical system. Many other policies³⁹ in the EU countries should be carefully analysed with the same purpose – should they be included?

Tax credits, traditionally classified as fiscal measures, are not explicitly considered as labour market policies, but they do have effects on the functioning of the labour market through raising incentives for keeping and taking jobs (targeting unemployed and inactive workers). As for reductions of social security contributions, they act as a demand-side device, reducing labour costs and promoting employment, especially for the low-wage earners.

The complex set of State policies, characterizing the present orientation towards both the institutions of the labour market and the patterning of resources flows of the workers, may not be fully perceived by looking at traditional target labour policies. The still adopted narrow scope of the Eurostat LMP database and its misuses does not contribute to the understanding of the ongoing transformations. In this context, such choice constrains the researchers to find data on expenditure as well as on the participants involved in non-harmonised national databases and leads to the potential marginalisation of the current Eurostat database.

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³⁹ See, for instance, the examples in Fravega and Palmas (2005).

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